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TAGS: PREL PGOV SENV SOCI ECIN ETRD AR UY

SUBJECT: ENCE PULLS MILL PLANS IN URUGUAY; BLOCKADE RETURNS

REF: MONTEVIDEO 353

Classified By: Charge d'Affaires James D. Nealon
for reasons 1.4 (B) and (D)

¶1. (SBU) Summary. The Spanish company ENCE informed the GOU that it will relocate its planned paper mill, but we suspect that the mill may never be built. Reports also indicate that Argentine protesters renewed last season's blockade of bridges into Uruguay and called on the remaining paper mill company, Botnia, to also move its plant. Botnia is currently suffering a work stoppage. GOU officials are concerned about recent developments. End Summary.

ENCE ANNOUNCES MOVE

¶2. (U) The Spanish company ENCE informed the GOU that it will relocate its planned paper mill. Various reports indicate that ENCE may consider a location further upriver or near the Brazilian border. It emphasized that the company will not leave Uruguay and will build a plant of twice the capacity in the new location. The company's president, Juan Luis Arregui, cited company restructuring and possible traffic congestion at the previous location as the main reasons for the move. Although ENCE originally planned to begin construction in December 2005, it has not proceeded beyond grading earth at the current site.

¶3. (C) Comment. ENCE's reasoning is difficult to believe. A change of location would delay the project for years during a renewed approval process, distance ENCE from its wood chipping facility and private port, and at least double the distance to its oceanic shipping point in Nueva Palmira. We have heard reports that ENCE is dependent on IFC financing--which has been long delayed--in order to start the project. However, we find it unlikely that ENCE suddenly discovered a traffic problem in Fray Bentos since both paper mills were planned since at least 2003 and have been the subjects of numerous impact studies. A high-level GOU official questioned ENCE's reasoning, and shared his belief that ENCE plans to cancel the project. We agree and find it highly likely that ENCE is weighing the possibility of abandoning plans to build in Uruguay under the guise of looking for a new location. End Comment.

AND MORE HEADACHES

¶4. (U) According to press reports, "thousands" of Argentine protesters renewed last season's blockade of bridges into Uruguay. Blocking two of the three bridges, Argentine protesters called on Botnia to change locations as well. This week, Uruguay's tourist locations await Argentine spring break vacationers, and protesters likely hoped to disrupt this traffic. Reports also inferred that ENCE's decision encouraged the protesters. Botnia has completed nearly half of its paper mill, and a move is very unlikely. Botnia, however, is facing a work stoppage over the importation of European specialized workers. Local union officials maintain that the company should hire Uruguayans instead.

REACTIONS

¶5. (C) Several GOU officials expressed exasperation over ENCE's decision, and while the GOU is officially cooperative with ENCE's request for relocation, several officials privately doubted its bona fides. Some in the GOU argue that the ForMin should have responded early to Argentina's world-wide lobbying efforts and signs of ENCE's wavering resolve. They take the loss of ENCE as further evidence of FM Gargano's incompetence. One commentator lamented that Uruguay relied too heavily on multi-lateral fora in this case, and the newspaper El País commented that nasty labor leaders plaguing Botnia may be just as damaging as Argentine protesters.

Nealon